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AIM JOURNAL

Small company optimism improves

Small and medium-sized companies are more optimistic about their prospects than three months ago, according to the QCA/BDO Small & Mid-Cap Sentiment Index, but it is not all good news. Nearly half of the companies believe that a general lack of confidence is holding back growth.

Those companies optimistic about their own prospects increased from 55% in July to 64% in October. The majority of companies believe that the best growth opportunities are overseas. Although 55% of companies are pessimistic about the prospects for the UK economy, this is lower than three months earlier. Although turnover is still expected to grow, the expected rate of growth has slowed from 9.7% to 7.9%.

Public share issues are the favoured way of raising money for 50% of companies. Around one-third of companies and advisers believe that allowing AIM shares into ISAs would have the biggest positive impact on the smaller company sector. There are also 41% of companies that reckon equity market reform would be the most effective form of regulation change that would help them to grow, although only 22% of advisers agree. Nearly a quarter of respondents to the survey favour a National Insurance holiday and greater investment in infrastructure as ways of boosting confidence and growth.

Tim Ward, chief executive of the QCA, points out that the smaller companies sector is a crucial engine for growth.

Parkmead gains North Sea licences

Parkmead Group has been one of the big winners in the UK Continental Shelf 27th Licensing Round and this is the latest step in the company's strategy to build up a diversified portfolio of exploration, development and production assets. Parkmead and its partners have been provisionally awarded six new licences, which include 25 blocks or partial blocks in the central North Sea, West of Scotland and West of Shetland. There are additional licences which are yet to be awarded due to environmental concerns.

Former Dana Petroleum boss Tom Cross is chief executive of Parkmead, which recently completed the acquisition of fellow AIM oil and gas company DEO Petroleum. Most of its interests are in the UK North Sea, although its first production is in the Netherlands. Bridge Energy ASA, which joined AIM at the end of September, has gained two licences in the central North Sea. This includes one licence where Parkmead is operator. The other licence includes an extension of the Aragon prospect. Other AIM oil and gas companies that gained interests in licences in the latest round include Valiant Petroleum, Trap Oil, Xcite Energy, Faroe Petroleum and Ithaca Energy.

In this issue

HubInvest publishes AIM Journal

www.hubinvest.com

general news

Virgin makes cash and shares offer for Skywest Airlines

Airline operator Virgin Australia Holdings plans a cash and shares bid for Skywest Airlines, which provides fly-in and fly-out services for mining companies as well as scheduled airline services. Skywest executive chairman Jeff Chatfield warns that it could take some months for the takeover to go through.

Virgin Australia is bidding A$0.225 in cash and 0.53 of one of its shares for each Skywest share. That values each Skywest share at A$0.4688 – based on the Virgin Australia share price on 29 October – which is equivalent to 30.5p a share. The Skywest share price was slightly higher than this around 18 months ago but it has been well below the bid value for most of this year.

Virgin Australia, which was launched in 2000, and Skywest have had a regional network partnership since October 2011. Skywest operates eight ATR-72 turboprops as part of the Australian Regional Airline Network (ARAN) and 20 other aircraft. The deal will enable further integration of the businesses. Skywest would become part of the Virgin Australia brand but retain an independent management.

There are a number of conditions relating to the bid and they include approval from the Securities Industry Council of Singapore, the Australian Competition and Consumer Commission, the Australian Foreign Investment Review Board and the Singapore High Court.

Skywest, which won the AIM Award for International Company of the Year in 2011, has been operating for nearly half a century and it flies to 16 destinations. House broker WH Ireland had forecast a 2011-12 profit of S$6.7m (£3.43m), rising to S$21.8m in 2012-13.

finnCap tops AIM

finnCap, a sponsor of AIM Journal, has become the top AIM broker according to research compiled by financial website Morningstar. This follows finnCap being awarded the 2012 AIM Award for Best Research. The broker increased its number of brokerships from 79 to 84 over the most recent quarter, thereby overtaking Cenkos, which dropped one client to 79. The flotations of compliance and information management software provider Ideagen and China-based electronic components supplier Kada Technology helped to boost finnCap's client list. In the six months to October 2012, finnCap reported a 14% increase in revenues to £5.7m and operating profit quadrupled to £1.1m. Pinsent Masons remains top of the Morningstar list of law firms advising AIM companies, with 49 clients. Memery Crystal is just behind, with 45 clients.

Bayfield Energy merger with Trinity provides fundraising opportunity

AIM-quoted Bayfield Energy Holdings is merging with fellow Trinidad and Tobago-focused oil and gas explorer Trinity Exploration & Production. Trinity's Bruce Dingwall and Joel 'Monty' Pemberton will become executive chairman and chief executive of the merged entity, which will also take on the Trinity name.

Bayfield will acquire the larger Trinity and it has ended discussions with potential bidders. Trinity shareholders will own 55% of the enlarged group and Bayfield shareholders the other 45%, prior to any fundraising. The enlarged Trinity will be the largest Trinidad-focused oil and gas company, with both onshore and offshore assets. There are opportunities for operational and commercial cost savings.

Bayfield joined AIM on 18 July 2011. During the summer, Bayfield tried to raise additional finance but poor market conditions meant that it was unable to complete the fundraising. There was $19.2m in the bank at the end of June 2012 but there was a $40m cash outflow in the first half of 2012 due to exploration spending. The lack of cash would have reduced Bayfield's ability to undergo additional exploration spending.

The enlarged group intends to raise cash from debt and/or issuing new shares in order to finance the proposed exploration programme. There will also be cash generated from existing production, as well as potential for additional near-term production opportunities.

The combined group has 11 operating fields. Gross production is 4,650bbl/day and net production is 3,800bbl/day. On top of that there are exploration assets. Bayfield also has an interest in an exploration licence in South Africa.

The merger requires approvals from the state-owned oil and gas company Petrotrin and the Trinidad and Tobago ministry of energy and energy affairs.

advisers

Fairfax IS withdraws from AIM

Broker Fairfax IS has withdrawn from the nominated adviser list and many clients and staff have left. Fairfax IS has been losing money and chairman and founder Stefan Allesch-Turner resigned in July.

The corporate finance team handling AIM clients at Fairfax IS moved to broker SP Angel and the majority of the clients have followed. By the end of October, Fairfax IS lost 16 nominated adviser roles and 19 brokerships. SP Angel became nominated adviser to 10 of these and broker to 12 in total – including taking on two joint brokerships. Since the beginning of November, two more brokerships have switched to SP Angel.

Meanwhile, the merger of N+1 Brewin and Singer has gone through. The renamed N+1 Singer retains two entries on the nominated adviser list but will drop one in the future.

Panmure Gordon's former US investment banking business, ThinkEquity, has filed for Chapter 7 bankruptcy protection, having ceased trading in October. Panmure retained a 22.5% stake in the buyout but this had already been written off in the interim figures. Back in 2007, ThinkEquity cost $62.3m (£31.9m) in cash and shares.

In the six months to September 2012, Charles Stanley Securities improved its revenues from £3.7m to £3.9m but this is still well below the £5.9m of revenues generated in the six months to September 2009. Fee income improved but commission income fell. The broker lost £500,000 after reorganisation costs of £200,000.

Accountants BDO and PKF are in talks concerning a possible merger, which would create a firm with combined revenues of £400m. BDO is already the sixth-biggest accountant in the UK, while PKF is the twelfth. PKF would be rebranded as BDO and become part of its international network.

ADVISER CHANGES - OCTOBER 2012

COMPANY	NEW BROKER	OLD BROKER	NEW NOMAD	OLD NOMAD	DATE
Edenville Energy	finnCap	ZAI	finnCap	ZAI	02/10/2012
Scancell Holdings	Cenkos	Zeus	Cenkos	XCAP	03/10/2012
EXPANSYS	N+1 Singer	Cenkos	N+1 Singer	Cenkos	04/10/2012
Proton Power Systems	Westhouse	Allenby/Cenkos	Westhouse	Westhouse	04/10/2012
Northern Petroleum	Westhouse	Cenkos/Westhouse	Westhouse	Cenkos	08/10/2012
StratMin Global Resources	Optiva/Peterhouse	Peterhouse	Libertas	Libertas	08/10/2012
Keenair Systems International	Westhouse	WH Ireland	Westhouse	WH Ireland	11/10/2012
Renew Holdings	Numis	N+1 Brewin	Numis	N+1 Brewin	12/10/2012
Resource Holding Management Ltd	Allenby	Allenby/Daniel Stewart	Allenby	Allenby	17/10/2012
Spark Ventures	finnCap	Canaccord Genuity	finnCap	Canaccord Genuity	19/10/2012
Toumaz Ltd	Peel Hunt	finnCap	Peel Hunt	finnCap	22/10/2012
Frontier Mining Ltd	RFC Ambrian	Westhouse/XCAP	Libertas	Libertas	23/10/2012
Modern Water	Numis	Nomura Code	Numis	Nomura Code	24/10/2012
Aurum Mining	WH Ireland	Fairfax IS	WH Ireland	Fairfax IS	26/10/2012
Frontier IP	Seymour Pierce	Fairfax IS	Seymour Pierce	Fairfax IS	26/10/2012
PipeHawk	Merchant Securities	finnCap	Merchant Securities	Merchant Securities	26/10/2012
Pressure Technologies	Charles Stanley	Fairfax IS	Charles Stanley	Fairfax IS	26/10/2012
RAB Special Situations Co Ltd	Panmure Gordon	Fairfax IS	Panmure Gordon	Fairfax IS	26/10/2012
Rugby Estates	Merchant Securities	Fairfax IS	Merchant Securities	Fairfax IS	26/10/2012
Terra Catalyst Fund	Smith & Williamson	Fairfax IS	Smith & Williamson	Fairfax IS	26/10/2012
Anglo Asian Mining	SP Angel	Fairfax IS	SP Angel	Fairfax IS	29/10/2012
Ariana Resources	SP Angel	Fairfax IS	Beaumont Cornish	Beaumont Cornish	29/10/2012
DiamondCorp	SP Angel/Ocean Equities	Fairfax IS/Ocean Equities	SP Angel	Fairfax IS	29/10/2012
Goldplat	SP Angel	Fairfax IS	SP Angel	Fairfax IS	29/10/2012
Hambledon Mining	SP Angel	Fairfax IS	SP Angel	Fairfax IS	29/10/2012
Mediwatch	SP Angel	Fairfax IS	SP Angel	Fairfax IS	29/10/2012
Metro Baltic Horizon	SP Angel	Fairfax IS	SP Angel	Fairfax IS	29/10/2012
Noricum Gold	SP Angel	Fairfax IS	SP Angel	Fairfax IS	29/10/2012
North River Resources	SP Angel/Ocean Equities	Fairfax IS/Ocean Equities	Strand Hanson	Strand Hanson	29/10/2012
Oxus Gold	SP Angel	Fairfax IS	SP Angel	Fairfax IS	29/10/2012
Promethean	SP Angel	Fairfax IS	SP Angel	Fairfax IS	29/10/2012
Westminster Group	SP Angel	Fairfax IS	SP Angel	Fairfax IS	29/10/2012
Sylvania Platinum	Liberum	RBC	Liberum	RFC Ambrian	30/10/2012

company news

Lok'nStore expects to benefit from self-storage VAT proposals

Self-storage operator *www.loknstore.co.uk*

Shares in self-storage sites operator **Lok'nStore** continue to trade at a significant discount to its net asset value and is on course to open new storage sites. Lok'nStore has always charged VAT on its services and its rivals will have to start doing this and they are likely to raise prices.

The valuation of the company's properties edged up slightly to £79.7m. The adjusted net asset value before deferred tax is 228p a share, while it is 180p a share after deferred tax. Even taking that lower figure, the discount to NAV is 34%.

Revenues were 18% higher at £12.8m, while pre-tax profit was flat at £926,000, although that was after non-utilisation fees and amortisation of bank fees of £201,000. Nearly all the growth in revenues came from the document storage business acquired last year, which also made a small contribution to profit.

> Lok'nStore has always charged VAT on its services

More than 90% of the self-storage revenues come from sites that have been open for five or more years. Management has been cautious about opening new sites given the current economic conditions. Supermarkets operator Lidl is financing a new site in Maidenhead which will open in 2013. Lokn'Store will also manage a new store opening in Crawley this year and one in Aldershot next year.

LOK'NSTORE (LOK)	119.5p		
12 MONTH CHANGE %	+ 21.3	MARKET CAP £M	29.9

The business is cash generative and this cash covered most of the capital investment, interest and dividend costs. Net debt was £25.2m at the end of July 2012. A new £40m debt facility was secured last year and lasts until October 2016. Lok'nStore had already flagged its intention to increase its total dividend by 66% to 5p a share, with a final dividend of 4p a share.

Staffline moves onto the high street

Recruitment services *www.Staffline.co.uk*

Staffline is expanding the range of its activities by moving into the office and administrative personnel recruitment sector through the acquisition of Select Appointments. The price paid has not been disclosed but it is relatively low and Staffline has ambitious plans to triple the number of Select branches.

Select has 31 franchised branches on high streets and Staffline believes there is scope for 100 branches by 2015. Select also has Parkhouse, which provides staff for warehouses, driving and engineering. This is more like the core OnSite operations for manufacturers but many of the jobs are at a higher skill level. Prior to the Select acquisition, Staffline bought Go New Recruitment, which provides driving and logistics recruitment services.

STAFFLINE (STAF)	241p		
12 MONTH CHANGE %	+ 8.9	MARKET CAP £M	55.1

Shore Capital does not expect any significant contribution from Select this year and pre-tax profit is expected to be flat at £10.2m. In 2013, net fee income has been upgraded from £38.8m to £40.3m but the profit forecast is unchanged at £12.2m. The 2014 profit forecast has been upgraded from £14.2m to £14.8m.

Select is run on a franchise-basis, which is different to the core Staffline business and means that there is less central control over the branches. There are undoubtedly risks in moving into a different part of the recruitment market. However, Staffline is effectively dipping its toe in the water and it will still get most of its profit from the core operations. The shares are modestly rated at five times forecast 2014 earnings and they also have an attractive yield. A forecast dividend of 8.4p a share provides a yield of 3.5%.

company news

Nanoco set to gear up production in readiness for commercial deal

Cadmium-free quantum dots *www.nanocotechnologies.com*

Cadmium-free quantum dots developer **Nanoco** is on course to significantly increase its manufacturing capacity but not all has gone to plan in the past year. The main uncertainty remains when the first commercial order will be received.

In the year to July 2012, revenues were higher than expected at £2.95m, up from £2.64m, while the loss was greater than last year but lower than forecast at £4.4m. The revenues have come from pilot schemes and joint development agreements. Admin costs continue to rise as more people are employed.

A Japanese manufacturer had been expected to start producing a TV product using Nanoco's technology but its own problems stopped this from happening. LCD TV manufacturers in Korea appear more likely to be the first businesses to commercialise the technology. A LCD display uses 0.7 grams of quantum dots that include cadmium, and should require a similar amount of cadmium-free quantum dots. Nanoco believes that it can achieve gross margins of more than 80% on commercial sales. LED lighting and solar are two other potential markets for Nanoco's technology.

A LCD display uses 0.7 grams of quantum dots

Outline planning permission has been granted for the new manufacturing facility and the design is being finalised. That should happen by Christmas. It will take 12 months to build and a further six months to tune up production capacity. The facility will have a manufacturing capacity of 400kg, compared with the current optimised production level of 40kg.

NANOCO (NANO)	66p
12 MONTH CHANGE % + 73.7	MARKET CAP £M 137.9

Net cash was £15.2m at the end of July 2012, which was down from £16.7m the previous year. Much of this cash, possibly £8m, will be needed to invest in the new manufacturing facility. Prepayments from customers could help to finance the investment.

Chief executive Michael Edelman sold 1m shares at 57p a share. He still owns 8.29m shares in Nanoco (3.97%). Chief technology officer Nigel Pickett exercised options over 1.49m shares at an exercise price of 3.516p a share. He sold 1m shares at 57p each and retained the rest, taking his stake to 5.24%.

Accsys secures INEOS joint venture

Wood treatment technology *www.accsysplc.com*

Accsys Technologies has completed the previously announced joint venture with chemicals supplier INEOS covering its Tricoya wood elements technology. INEOS has also subscribed €4m for a 5.4% stake in Accsys, which will use the cash to help fund the joint venture. The subscription price of €0.17 a share was a premium to the market price.

Accsys's main Accoya treatment enables soft woods to last for longer. The technical process, called wood acetylation, increases the number of acetyl molecules in wood, which changes its physical attributes and makes it inedible to most insects and micro-organisms. The wood is also less likely to swell and shrink.

ACCSYS TECHNOLOGIES (AXS)	€ 0.15
12 MONTH CHANGE % + 45.1	MARKET CAP €M 64.4

Tricoya uses the same technology but on particles rather than planks. The 50/50 joint venture Tricoya Technologies Ltd will benefit from the market reach of INEOS, which will help it to secure licences for the Tricoya technology around the world. These would be in the areas of MDF, particle board and wood plastic composites.

Tricoya acetylated wood elements can be used to make panels. Tests have suggested that Tricoya panels can be used in outdoor and wet environments. Wood elements are sourced from certified, reclaimed or recycled timber. The wood composite panels can be used for fascia panels, furniture, signage and many other products which could replace metal or plastic alternatives.

company news

Significant upgrades at blinkx send the share price higher

Video search engine technology *www.blinkx.com*

Video search engine developer **blinkx** sparked substantial upgrades following its latest trading statement. The upgrades show how blinkx has reached the point where most additional revenues are likely to fall through to profit as the growth of the online advertising sector starts to gather pace.

blinkx has an index of more than 35m hours of searchable video and more than 800 media partners. This gives blinkx an exceptionally strong market position. Acquisitions have added more traffic for blinkx. All this means that blinkx is starting to get a return on the $150m of investment it has made over 12 years.

A strong first half thanks to the Olympics and the US Presidential elections meant that revenues were around $80m in the six months to September 2012. This is normally the weaker half of the financial year but this year could be more even. The underlying interim profit will be $6.8m, before amortisation of $2.7m and one-off acquisition-related charges of $1.7m.

Peel Hunt has increased its full-year revenues forecast from $154.1m to $160m, while the underlying profit forecast jumps from $8m to $11.9m. Gross margin estimates have been maintained at 52% and the overall profit rise comes from a combination of additional gross profit and slightly lower operating costs than originally forecast. Despite sharp upgrades the shares remain highly valued, with the shares trading on nearly 38 times prospective 2012-13 earnings. This multiple is expected to come down sharply even though any upgrade for future years is waiting until the full interim figures are published in the middle of November.

> blinkx has an index of more than 35m hours of searchable video

blinkx (BLNX)			71.5p
12 MONTH CHANGE %	- 51.6	MARKET CAP £M	258.9

Distribution deals boost LiDCo in US

Patient monitoring equipment *www.lidco.com*

Patient monitoring devices developer **LiDCo** has renegotiated its US distribution deal with Covidien and this should help to grow sales in North America. Meanwhile, UK sales continue to grow.

It appears that North American sales were lower in the first half but this is down to a one-off licence payment (£290,000) in the corresponding period. Even so, there is still a lot to go for in the US and Covidien has other products to focus on. Additional distributors should help to increase the rate of growth of sales in the US.

Revenues edged up from £3.22m to £3.35m in the six months to July 2012 but the loss also increased from £242,000 to £312,000. Some of the revenue growth came from third-party product sales, which were only included for part of the corresponding first half. Underlying gross profit margin from LidCo products increased from 75% to 80%.

UK revenues rose 49% to £2.38m, although monitor revenues fell. Disposable revenues for LiDCo machines jumped 24% to £1.27m. New distribution arrangements should boost future Japanese revenues.

Net cash was £288,000 at the end of July 2012. There was a working capital outflow due to investment in stocks of components that are no longer made by the supplier. The development spending on the new LiDCo Rapid will be completed this year and the overall development spending could fall next year.

The newest product enables more elements to be monitored and broadens the market. House broker finnCap forecasts a full-year profit of £300,000, compared with breakeven last time. That puts the shares on 30 times prospective 2012-13 earnings with potential for strong growth in the coming years.

LIDCO (LID)			14.88p
12 MONTH CHANGE %	- 0.8	MARKET CAP £M	26.2

dividends

GETECH progresses with restoration of dividend

Geological data and services *www.getech.com*

Dividend

Geological information and services provider GETECH has gone a long way to restoring its dividend to its previous levels and the company is financially strong enough for the dividend to surpass the 1.3p a share paid out for the year to July 2008, when GETECH reported a pre-tax profit of £900,000 on revenues of £4.13m and it had £1.69m in the bank. Subsequent losses meant that after an unchanged interim of 0.6p a share the following year no dividend was paid for four periods – equivalent to two years.

The latest figures show a profit of £1.25m on revenues of £6.44m and net cash was £2.61m at the end of July 2012. A final dividend of 0.8p a share took the total for the year to 1p a share, up from 0.2p the previous year, which was much higher than expected. The dividend is covered 3.2 times.

A dividend of 1.1p a share is forecast for this year to July 2013, which will again be covered around 3.2 times. There is scope to increase the dividend more than this given the strong cash position and the reduced dependence on one-off sales.

Business

GETECH provides data, studies and services to the oil and gas sector and also to the mining sector. The company supplies global and regional studies and interprets magnetic and gravity data. In some cases GETECH produces its own studies which it sells to a number of oil companies and in other cases it is commissioned by a single company to provide data. The data is used to enable the oil companies to assess the potential and risks of areas and helps them to decide whether further exploration and drilling is warranted. It is easier and more cost efficient to pay for the skills of GETECH than it is to employ people directly.

GETECH (GTC)	
Price	51.5p
Market cap £m	15.1
Historical yield	1.9%
Prospective yield	2.1%

The lumpiness of contracts and the potential importance of a single deal in any one year is something that management is well aware of and they have moved to change that in the past year by signing multi-year deals. Data sales were the vast majority of revenues two years ago and they still contributed £3.3m of last year's revenues of £6.44m and that includes a $1.28m purchase of Russian Arctic shelf magnetic data by a major oil company.

The rebranded Globe part of the business has secured nine sponsors on multi-year contracts, five of which were signed up by July. This provides more visibility to revenues and reduces the dependence on one-off deals. Globe is effectively the core knowledge base of the business, which is being constantly updated, and sponsors can choose to access different aspects of the knowledge.

Last year's profit was even higher than the original forecast for the current year. House broker WH Ireland now forecasts a 2012-13 profit of £1.37m, rising to £1.49m

Dividend news

Branded furnishings supplier **Walker Greenbank** increased its interim dividend from 0.2p a share to 0.23p a share and it is set to be in a net cash position by the end of January 2013. Revenues grew 2% to £38.3m in the six months to July 2012, while underlying pre-tax profit improved 11% to £2.7m – this excludes a higher pension accounting charge. All of the company's brands increased sales, with Harlequin revenues rising nearly 7%. The company has launched two new brands. Scion is aimed at a younger market than the existing brands and Sanderson Home has a much lower price point than the main Sanderson brand.

Energy consultancy **Utilitywise** unexpectedly announced a dividend with its figures for the year to July 2012. Utilitywise is paying a maiden dividend of 1p a share and a dividend of 2.6p a share is forecast for this year. Pro forma revenues grew 25% to £14.6m and underlying profit improved from £3.46m to £4.31m and strong momentum is being maintained in the current financial year. Cash flow is strong and there was £8.23m at the end of July 2012. Utilitywise is one of the largest companies in a fragmented sector. It has more than 11,000 customers – less than 1% of the market. House broker finnCap forecasts a 2012-13 profit of £6.6m.

Activist investor **Sherborne** Investors (Guernsey) Ltd has declared a 9.5p a share dividend. Sherborne owns 21.4% of investment manager F&C Asset Management and it has received a dividend from F&C. Approximately 1.1p a share of the dividend declared relates to this F&C dividend and the other 8.4p a share comes out of Sherborne's existing cash pile. There is still going to be £8.6m in the bank after the dividend is paid. A dividend of 1.9p a share was paid by Sherborne in July.

expert views

Expert view: The broker

Little pieces of a big pie

By EMILY ASHFORD

After six disappointing well results in 2012, oil and gas explorer and producer Faroe Petroleum has fallen 16% from its May highs and we believe it is trading below its fair value. It retains a strong corporate strategy of portfolio diversification, and benefits from a deep pipeline of assets progressing towards development and production.

We await news on an exciting exploration well, and Faroe has an inventory of both low-risk and high-risk prospects, which will provide considerable news flow over the coming year. We initiate coverage with a target price of 200p.

Over the past two years, Faroe has taken significant steps to move from being a small-cap explorer to an increasingly balanced business. Production assets provide regular revenues to fund further development and exploration. It has proactively built a large portfolio, with modest interests in over 40 assets spanning the Atlantic Margin, North Sea and Norway, frontier and near-field.

Faroe has a fully funded multi-well exploration and appraisal drilling programme, and has undertaken a series of deals which, as well as giving it producing assets, have also bolstered its 2P reserves fivefold, from 4.3mmboe to 23.8mmboe, and its resource potential to 290mmboe risked (1.4 billion boe unrisked). The swap of the Maria discovery for Norwegian production assets pushed average daily oil and gas production to a high of 11,360boepd during January and February 2012. We expect Faroe to maintain a flat production profile through continual development.

Historically, Faroe has been successful with the drill-bit, with a commercial success rate of 73% from 2009-2011 on exploration and appraisal wells. However, its 2012 exploration campaign is yet to see commercial success, with four exploration wells and two appraisal wells all plugged and abandoned.

Drilling potential

There is near-term drilling activity for Faroe, with the deep-water West of Shetland North Uist prospect being drilled by BP. North Uist contributes 7.3p/share to our valuation, rising to 29.1p/share fully unrisked. It is a 200mmbbl prospect, targeting upper Jurassic and Palaeocene reservoir objectives. Whilst Faroe only has a 6.25% stake, it has a financial carry of a portion of the well costs. The prospect is also close to a number of other objectives on the Atlantic Margin Corona Ridge.

Several of Faroe's UK appraisal projects, including Perth and Tornado, offer considerable upside and represent around 27.3p/share risked within our valuation. As firm dates and field development plans are confirmed, their value will increase further.

Finances

Faroe has a strong cash position, with extensive unused debt facilities (a reserve-based lending facility of $250m committed, and a NOK1bn (£110m) Norwegian exploration facility), alongside a recent boost in revenue generated from production. In addition, Faroe has access to Norway's beneficial exploration tax rebate system, and UK tax losses.

Rapid monetisation of the Maria licence, which was swapped for producing Norwegian assets, was a tax-efficient transaction which enabled Faroe to avoid significant Maria capex, and acquire immediate production revenue. We forecast 2012 production of 7,681boepd, which should remain stable for the next year, and then the first oil and gas from development projects such as Hyme, due in the first half of 2013, should offset a decline.

The recent deals we have seen from Asian firms acquiring North Sea assets put Faroe firmly in the sights for a potential sale. Faroe's 23% shareholder Dana Petroleum is already owned by the Korea National Oil Corporation (KNOC). It is currently unclear what KNOC's long-term interest in Faroe is, and whether or not they may be future acquirers of the company. The former chief executive of Dana, Thomas Cross, is now boss of AIM-quoted Parkmead Group, which also holds around 2% of Faroe.

We see Faroe as trading beneath its fair value and in line with its peers (Premier Oil and Valiant Petroleum) in our coverage universe. Core NAV contributes 112.9p/share to the valuation, with 59.7p/share from Norwegian assets, and 29.5p/share from UK, as well as 23.8p/share of financial adjustments. We see considerable upside potential in the UK exploration and appraisal assets, notably Grouse at 35.4p/share risked. Fully unrisked, the total NAV is 571.8p/share.

Faroe has a fully funded multi-well exploration and appraisal drilling programme

EMILY ASHFORD is an oil and gas sector analyst at finnCap, which won the 2012 AIM Award for best research.

feature

AIM liquidity holds up despite competition

Trading levels on AIM have not changed significantly this year despite weak trading during the Olympics. Companies are still leaving, though, and rivals would like to lure companies from AIM. However, they do not offer all the benefits that AIM does.

AIM trading levels are holding up well in comparison to the Main Market but, the number of AIM companies continues to decline, albeit at a much slower rate than previously.

There is nothing to stop an AIM company being liquid as long as it has a story that will interest investors and there are shares to trade. Many companies make the mistake of not having enough shares available to trade and this means that many investors will shy away from the investment because of the potential difficulties in selling shares.

There have still been 93 cancellations of AIM quotations so far this year, or 79 excluding readmissions and transfers to the Main Market. This is down from 110 in the first nine months of 2011, or 85 excluding readmissions and transfers to the Main Market.

Holding up

London-based accountant UHY Hacker Young points out that the average daily value of shares traded on AIM fell less than 1% from £115.8m in September 2011 to £115.4m in September 2012. The total market capitalisation of AIM has fallen from £63.8bn to £60.4bn over that period. In contrast, the Main Market daily average trading value has declined from £5bn to £4.2bn.

Looking at the figures for the first nine months of 2012, AIM's total turnover has edged ahead from £30.9bn to £31.3bn. This is particularly impressive given that August was such a weak month due to the Olympic Games. The average value traded in August was £79.6m, down from £174.2m in August 2011.

The average daily value traded on AIM of £166.2m so far this year is the highest figure since 2008. The average number of daily bargains is just short of an all-time record at the moment. The daily figure is 23,595, down from 23,681 in the same period in 2011. The figure for the whole of 2011 was 22,811.

Oil dominates

One thing that is abundantly clear when looking at the figures for the value of trading on AIM is that the oil and gas sector dominates, accounting for 56.2% of the trading on AIM so far in 2012. The sector also accounts for more than half of all bargains. Last year, oil and gas generated 37.9% of the value of shares traded in the nine months to September 2011. The only other sector where there is more trading this year is consumer goods, with the majority of the improvement coming from the personal goods sub-sector, which includes Mulberry.

The value of mining shares traded has fallen by more than a quarter over the same period, while the figure for the industrials sector has more than halved to £1.13bn.

Exits continue

Despite this relative strength in AIM trading there are still companies leaving. Some are being taken over because of their attractive valuations but others are still choosing to drop their AIM quotation because of a lack of interest from investors. A handful of the companies choose to go to another market and there is plenty of choice at the moment.

There are brokers that operate matched bargain trading facilities on behalf of a company. Edinburgh-based Stocktrade, the execution-only stockbroking division of Brewin Dolphin, operates a matched bargain facility for a number of former AIM companies as well as companies that have never been quoted on a stock market. It is important to understand that this facility is not a Recognised Investment Exchange (RIE) or a regulated market.

In straightforward terms, a buyer will contact the broker matching bargains in a company's shares and say how many shares they want to buy and a maximum price they are willing to pay. Sellers will say how many shares they want to sell and the price they want to receive. When there are buyers and sellers with compatible price and size terms the broker will match them up and execute the transaction.

> The average daily value traded on AIM of £166.2m so far this year is the highest figure since 2008

Most of the rival trading platforms to AIM also trade on a matched bargain basis. AIM companies that switch to these other markets tend to have poor liquidity and want to save money. It costs less to be on the other trading facilities and the regulation is less onerous. Many companies that leave AIM believe that they can make a six-figure reduction in their costs.

At the beginning of November, packaging graphics services provider Imagelinx announced that it plans

feature

to leave AIM and move to the BritDAQ trading platform (see below). The company's argument is that management will not have to spend so much time complying with AIM regulations and there will be savings in professional fees. It estimates total cost savings of around £100,000 a year.

The rival trading platforms do not offer much in the way of liquidity – at least at the moment. There is not a lot of trading in most of the shares on these other markets. So it is those cost savings that are attracting companies along with the opportunity to continue to offer a market in the shares to shareholders, even if trades are few and far between.

The main rivals are:

ISDX
(www.isdx.com)

ICAP Securities & Derivatives Exchange (ISDX) is the new name for Plus Markets following its takeover by interdealer broker ICAP. Plus-quoted is now known as the Growth Market and Plus-listed, the equivalent of the Main Market of the London Stock Exchange, is now the ISDX Main Board, although its only company is social housing maintenance provider Mears.

ISDX is different to the other alternative markets in that it has market makers. It has added two additional market makers – Peel Hunt and Shore Capital. However, it appears that they will only be making markets in the largest companies on the market.

However, market makers do not drum up interest in a company; they just try to create a market in the shares. If there is no interest, and therefore no market, then a market maker is not going to rectify this. Tinkering with the share price is not going to attract investors to a company that they are not aware of.

ISDX wants to focus on increasing the quality of companies on its market. A new admissions framework will be published next year and ICAP hopes that this will strengthen investor confidence.

GXG Markets
(www.gxgmarkets.com.uk)

GXG Markets has been trading in the UK for just over one year. As the European regulated market already operated in Denmark the regulatory process was reasonably straightforward thanks to EU regulations. GXG has developed its own trading platform that has already been proven in Denmark. GXG has a multilateral trading facility and an OTC market. GXG has not attracted any companies from AIM but it does have eight former Plus/ISDX companies, out of a total of 50 companies on its markets. Like ISDX, GXG sees itself as an alternative to AIM for companies considering a flotation. The ideal market capitalisation for GXG is between €5m and €50m.

> The oil and gas sector dominates and accounts for 56.2% of the trading on AIM so far in 2012

Asset Match
(www.assetmatch.com)

Asset Match is the newest of the operations planning to deal in small company shares. Asset Match is buying private client broker Share's small company trading platform ShareMark for £100,000 plus a 1% stake in the purchaser. Share will concentrate on its broking business, The Share Centre, and funds business Sharefunds.

Asset Match plans to offer investors the chance to trade in the shares of profitable unlisted private companies. It is unclear if it has started trading in any shares as yet. The ShareMark deal will bring the brand name, corporate customers and website. Share retains the rights to operate the multilateral trading facility, together with intellectual property of the trading algorithm, as well as the regulatory responsibility. Share is contracted to operate the facility for two years under the Asset Match name. This involves monthly service payments and a share of revenues.

Asset Match was authorised by the FSA on 16 August 2012. The firm was founded by Stuart Lucas and Iain Baillie. The former is a non-executive director of Daniel Stewart.

ShareMark was started a decade ago. It has three former AIM companies on its market, which has regular order driven auctions of shares in the companies on the trading facility, plus Share itself which is also quoted AIM.

London Matched Markets Exchange (LMMX)
(www.lmmx.co.uk)

LMMX is a new name for JP Jenkins (JPJL) and its origins are similar to IDSX, because JP Jenkins originally set up Ofex, which became Plus Markets and now ISDX. However, LMMX is purely a matched bargains market. There are 15 companies on LMMX that were formerly on AIM plus others that were on Plus-quoted. This market has been around longer than its rivals, excluding ISDX. Shareholders can use their own broker to trade in the shares.

BritDaq
(www.britdaq.com)

BritDAQ, which is authorised by Walker Crips Stockbrokers, trades shares on a matched bargain basis and has an automated low-cost share registration service. All matching is done over the telephone by Walker Crips. BritDAQ has seven former AIM companies on its list and also trades in the recently issued warrants of AIM cash shell Lagan Capital. The former AIM companies include Getmapping, which originally left AIM to go to ShareMark. The latest is currency exchange broker Baydonhill, which left AIM at the end of October, with Imagelinx set to follow.

statistics

Market Performance, Indices and Statistics

AIM SECTOR INFORMATION

SECTOR NAME	% OF MARKET CAP	% OF COMPANIES
Oil & gas	25.7	11.7
Financials	16.9	21.3
Basic materials	13.8	16.2
Industrials	11.6	18.5
Consumer services	9.2	9.6
Technology	8.2	9.6
Consumer goods	6.2	5.1
Health care	5.3	5.8
Telecoms	2	1.2
Utilities	1.1	1.2

FTSE INDICES

ONE-YEAR CHANGES

INDEX	PRICE	% CHANGE
FTSE AIM All-Share	697.73	-4.1
FTSE AIM 50	3092.61	+2.7
FTSE AIM 100	3126.99	-4.3
FTSE Fledgling	4601.44	+7.1
FTSE Small Cap	3257.73	+14
FTSE All-Share	3024.4	+5.7
FTSE 100	5782.7	+4.3

COMPANIES BY MARKET CAP

MARKET CAP	NO.
Under £5m	279
£5m-£10m	141
£10m-£25m	217
£25m-£50m	193
£50m-£100m	140
£100m-£250m	89
£250m+	46

KEY AIM STATISTICS

Total number of AIM	1,105
Number of nominated advisers	54
Number of market makers	57
Total market cap for all AIM	£60.4bn
Total of new money raised	£79.2bn
Total raised by new issues	£35.3bn
Total raised by secondary issues	£43.9bn
Share turnover value (2012)	£31.3bn
Number of bargains (2012)	4.44bn
Shares traded (2012)	159.3bn
Transfers to the official list	162

TOP 5 RISERS OVER 30 DAYS

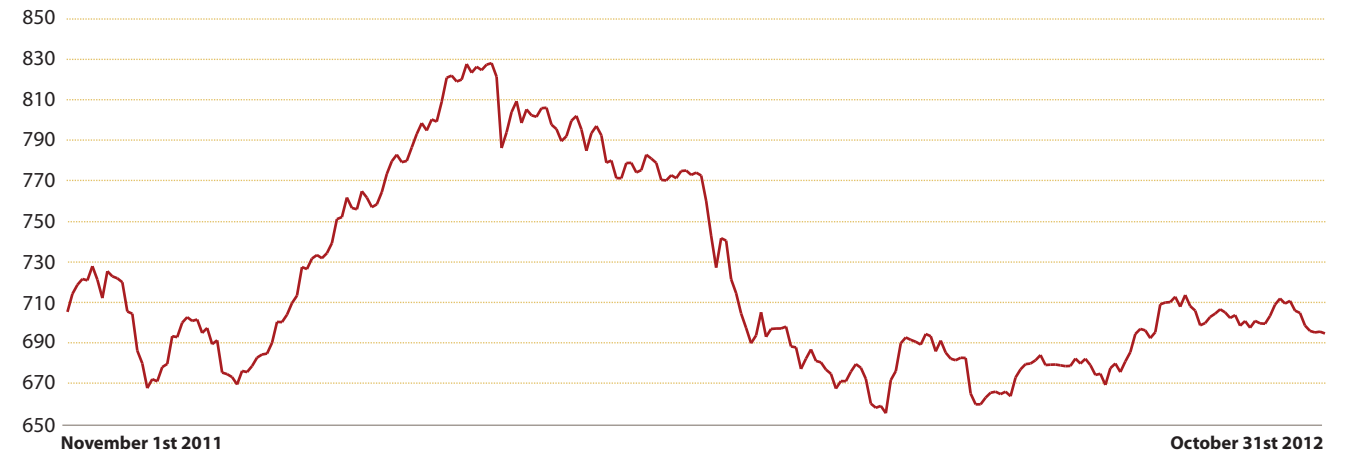
COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
MBL Group	Media	11.75	+147.4
Leni Gas & Oil	Oil and gas	0.86	+113.6
Reach4Entertainment	Media	6.5	+92.6
Sound Oil	Oil and gas	1.02	+86.4
Biofutures International	Cleantech	3.6	+80

TOP 5 FALLERS OVER 30 DAYS

COMPANY NAME	SECTOR	PRICE (p)	CHANGE (%)
Ceres Power	Cleantech	1.2	-88.7
ATH Resources	Mining	0.78	-77.9
Digital Learning Marketplace	Training	5.25	-72
Palmaris Capital	Mining	0.88	-65
Angel Mining	Mining	0.5	-48.7

AIM - 1 YEAR INDEX CHANGE

Source: London Stock Exchange



Data: Hubinvest Please note - All share prices are the closing prices on the 31st October 2012, and we cannot accept responsibility for their accuracy.

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finnCap

finnCap is an independent, client-focused institutional broker and corporate adviser, whose chairman is Jon Moulton. The firm is 95% employee owned and it has a dedicated small cap focus. finnCap's goal is to be the leading adviser and broker in the small cap space. The broker has a full service offering, plus strong aftermarket care and client service. A proactive team approach means that there is support from all departments for all of the firm's corporate clients. This helped finnCap become the fastest growing broker in both 2009 and 2010. finnCap is ranked as the number two broker/nominated adviser on AIM by overall client numbers. It is number one ranked in healthcare, technology and industrials sectors.

finnCap won the Best Research award at the 2012 AIM Awards. finnCap was shortlisted for AIM Broker of the year, AIM Adviser of the year and Analyst of the year at the 2011 Growth Company Awards. finnCap's corporate broking and sales trading teams have achieved Extel Top 10 rankings for two years running.

finnCap has a strong track record of raising money for clients and it has advised on £280m of fundraisings and more than £300m of M&A transactions since June 2009. More than £140m was raised for clients in the year to June 2011.

Clients have a combined market value of around £3bn, with an average market capitalisation of approximately £40m. The top 20 clients have an average market capitalisation of more than £100m.

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